

INTRODUCTION TO SUPPLEMENTARY ESTIMATES AND TAX LEGISLATION

THE HONOURABLE
W. DARCY McKEOUGH

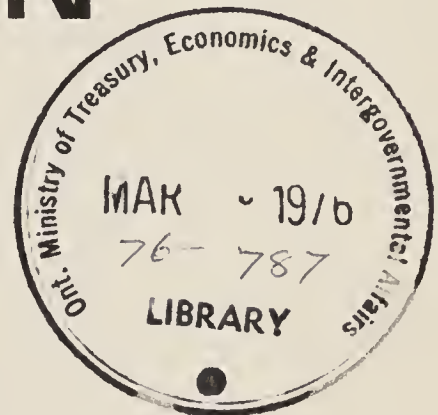
TREASURER OF ONTARIO AND MINISTER OF ECONOMICS



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STATEMENT BY
**THE HONOURABLE
W. DARCY McKEOUGH**

TREASURER OF ONTARIO
AND
MINISTER OF ECONOMICS

IN THE
LEGISLATIVE ASSEMBLY OF ONTARIO
MONDAY, DECEMBER 13, 1971

INTRODUCTION
TO
SUPPLEMENTARY
ESTIMATES
AND
TAX
LEGISLATION



W. DUNCAN MACKENZIE
Minister of Finance

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Copies may be obtained from the
Taxation and Fiscal Policy Branch,
Department of Treasury and Economics,
First Building, Queen's Park,
Toronto 5, Ontario
(416) 365-4746

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INTRODUCTION

Mr. Speaker,

I rise at this point to introduce to the Legislature, on behalf of the new Government of Ontario, important changes in our ongoing fiscal policy. These changes consist of supplementary estimates and certain taxation measures, which together represent a deliberate adjustment in our budgetary position in the light of changing economic conditions.

This year, the Ontario Government has made decisive moves in the area of economic stabilization policy of an order never before undertaken. In our policy initiatives, we have made a concerted effort to anticipate future economic trends and to offset emerging economic weaknesses.

The emergence of the expanded Provincial role is the inevitable outcome of the growth in our fiscal responsibilities and the increasing importance of the provincial-municipal sector in the national economy. Acceptance of this responsibility means that we must use our fiscal resources and maintain the necessary flexibility to keep policy in step with economic realities.

The expansionary measures of our April budget have been reinforced by additional discretionary tax and expenditure measures to bolster economic growth. I would like to provide today some explanatory remarks on these actions and to place them in the context of the evolving economic situation.

THE GOVERNMENT'S FISCAL AND ECONOMIC
POLICIES IN 1971-72

Economic Performance and Outlook

The Ontario economy has been performing well below its full potential for some time. This year alone, I estimate that about \$1.5 billion in output and over 70,000 jobs have been lost because of the underperformance of the economy. In its 1970 budget, the Ontario Government advanced the view that a 3 per cent unemployment level is a reasonable target for the Ontario economy. By contrast, actual experience in the last two years has been very disappointing and I need not detail here the degree to which federal fiscal and monetary policies were responsible for this. I now estimate that real growth in 1971 at 5.5 per cent will be close to my earlier anticipations, but unemployment at 5.3 per cent will be higher than I had forecast.

Next year I am hopeful that real economic growth will be in the range of 6.0 per cent. However, unemployment will continue to be a problem. Members may recall that it took almost four years after the last major recession to bring the economy back to full employment. This time, with concerted government efforts, the recovery period can probably be shortened. The most recent estimates of the economic outlook for 1972 convince me that unemployment will improve gradually, and, hopefully, the seasonally adjusted rate of unemployment in Ontario may decline to 4.5 per cent by the end of next year.



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The Development of Ontario's Role
in Fiscal and Economic Policy

The Government of Ontario moved in its April 1971 budget to create an expansionary environment for the private sector, and there can be no doubt that without these policies the economic situation in Ontario would be significantly worse than it is today. I would remind Members that we have had no increases in provincial taxes for over two years. On the contrary, our budgetary policies have been made progressively more expansionary in order to cushion the impact of federal deflationary measures. During this time, we have also increased significantly the level of tax relief to local taxpayers.

In the past two years we have refined and strengthened the Ontario Government's ability to provide strong measures of economic stabilization. The full-employment budgeting technique is now a normal part of our budgetary policy apparatus and provides economic guidelines to indicate the degree of expansionary thrust in our fiscal policies. This year the Government has again introduced a wide range of selective seasonal employment programs. Our operational experience with these programs is accumulating rapidly and is being actively used to improve their effectiveness.

On the federal-provincial front we have pushed hard for an improved system of fiscal policy co-ordination. In this regard I am tabling two documents today. The first paper, The Reconstruction of Economic and Fiscal Policy Co-ordination in Canada, contains a set of definite proposals for improved intergovernmental economic and fiscal

policy co-ordination, which I presented to the meeting of Ministers of Finance on November 1. The second paper, presented to the Meeting of First Ministers on November 15 by the Prime Minister of Ontario, specified detailed points requiring federal action and clarification. It is called, Questions on Federal-Provincial Economic Co-operation.

In our discussions with Ottawa we have obtained agreement in principle to an annual review by Ministers of Finance of economic progress and targets, and to the establishment of a more systematic intergovernmental review of seasonal employment programs.

Ontario's Basic Fiscal Plan

I would now like to review the basic fiscal plan which I introduced in my April budget. Let me emphasize that the overall fiscal plan for 1971-72 has not changed in its objective: that is, the continuing expansion of the economy and a substantial improvement in the unemployment situation. The changes to our original fiscal program have been made deliberately to reinforce its fiscal thrust.

Members will no doubt remember that my budget of April of this year called for a deficit of \$415 million. It is important also to recall in my basic fiscal plan the emphasis on tax reductions rather than increases in expenditures. While discretionary increases in expenditures were made to relieve seasonal unemployment, the key element in the plan was the 5 per cent corporate investment tax credit. The tax credit was introduced to shore up business sector confidence

and investment, especially in manufacturing which employs over a quarter of Ontario's labour force. This fiscal initiative was based on our economic analysis and was subsequently reinforced by the Dominion Bureau of Statistics' survey of investment intentions.

In my April budget, I stressed that despite the maximum utilization of our resources we could not expect to accomplish full employment by ourselves. The success of our policies depends on the fiscal and monetary policy support of the Government of Canada. Consequently, the Ontario Government recommended the following steps to the federal government:

- . elimination of the federal 3 per cent temporary income surtaxes;
- . reduction of long-term interest rates; and
- . lowering of the external value of the Canadian dollar.

The federal income surtaxes bore more heavily in Ontario than in the rest of Canada, and, consequently, had a much greater restrictive impact on incomes and demand in this province. It was for this reason that we advocated their removal in December, 1970, and in subsequent months. The federal government's decision to remove these surtaxes in its June 1971 budget was therefore very welcome. A modest reduction in long-term interest rates has occurred in recent months, but unfortunately, as Members are aware, the continuing high value of the Canadian dollar remains a great concern.

Ontario's Revised Fiscal Plan

Despite federal and provincial actions, further ongoing provincial action has been necessary in view of the continuing rise in unemployment and the uncertainties caused by the recent economic measures by the United States. Consequently, on October 8, the Prime Minister of Ontario announced a two-part plan for further economic stimulation involving the balanced use of tax reductions and selective expenditure increases. Before explaining these changes in detail, I shall briefly review their overall impact on the budget.

The changes from our original budget plan will result in an increase in the budgetary deficit for the current fiscal year to \$553 million. The increase of \$138 million in the budgetary deficit from April results from a relatively small increase of \$36 million in revenues and an increase in expenditures of \$174 million. Expenditures are now forecast at \$4,436 million. The bulk of the expenditure increase is in the form of discretionary outlays to expand the economic thrust of government fiscal operations, and to meet higher welfare costs as a result of high unemployment.

The broad dimensions of the Province's revised fiscal plan for 1971-72 are shown in the accompanying table. I am confident that the expanded thrust of this revised plan, combined with the parallel increase in federal expansionary actions, will give a substantial boost to output and employment in the year ahead.

ONTARIO'S REVISED FISCAL PLAN

(Millions of Dollars)

	1970-71 <u>Actual</u>	Original 1971-72 <u>Budget</u>	Revised 1971-72 <u>Budget</u>
Net General Revenue	3,752	3,847	3,883
Net General Expenditure	3,846	4,262	4,436
	<hr/>	<hr/>	<hr/>
Budgetary Deficit	(94)	(415)	(553)
	<hr/>	<hr/>	<hr/>

Now I would like to explain more fully our specific expenditure and tax actions.

EXPENDITURE ACTIONS

First, I shall discuss the Government's revised expenditure plan. The increase in spending over the April budget forecast is basically divided into two parts. The most significant portion relates to the general economic situation. This includes our direct winter employment stimulation program, the acceleration of other capital works undertaken earlier in the year because of economic conditions, and increased welfare payments. Together these items account for over \$80 million of the expenditure increases. The revised expenditures also cover a variety of other discretionary actions taken by the Government since last April including: provision for the elimination of pensioners' health insurance premiums; increased capital subsidies to Metropolitan Toronto for subway construction; additional grants to regional governments; accelerated purchasing of recreational land; and other items which are detailed in the supplementary estimates. The total supplementary estimates tabled today cover gross expenditures of \$173 million. Full details on the revised expenditure plans of the Government are contained in the financial statements in Appendix B.

In advancing this additional spending for 1971-72 let me emphasize that the Government has not departed from its objective of rigorously restraining growth in the size of the civil service. I am pleased to announce that we have been successful in realizing this goal, as shown in Appendix B, even though our programs have been significantly expanded.

Winter Employment Programs 1971-72

Before describing our expanded winter employment programs, I shall briefly review the previous actions taken by the Government to increase temporary employment. Last winter our policy was implemented through the Ontario Seasonal Employment Program and the Municipal Employment Incentive Program. I can now report that both were successful in terms of providing productive work to the maximum number of people and reducing the numbers on welfare. The 697 municipalities which participated in the Municipal Employment Incentive Program provided a total of almost 300,000 man days of work, or an average of two months' employment for over 7,000 men. The intensified summer program resulted in the employment of over 16,000 students at a cost of \$18.9 million.

It is my view that the best way to restore full employment is through tax cuts which encourage investment and the expansion of private sector activity. Expenditure increases, however, if adopted on a selective and prudent basis, can play a special and important role in the direct relief of seasonal unemployment. Based on our encouraging experience with the early 1971 programs and our determination to do everything possible to relieve the hardship of unemployment, the Government decided in late summer to significantly expand and diversify temporary expenditure increases.

Past experience with the Ontario and federal seasonal employment programs indicates that there should be an emphasis on municipalities and other local bodies, because they have greater sensitivity to local employment conditions and project possibilities. Our experience also indicates the need for strong incentives such as grant and forgiveness provisions, since they maximize the municipalities' ability to participate. Finally it is evident that capital works should be relied upon only to the extent that they can be immediately accelerated into the winter period. With this in mind, the Government established the following program selection guidelines:

- . maximum impact on peak unemployment months and on removing people from the welfare rolls;
- . consistency with overall Government policy and budgetary priorities, including public sector spending restraint and minimum pressure on the local tax base; and
- . administrative flexibility and simplicity, with fast commencement and phase-out of projects.

On the basis of these guidelines, the programs advanced by the Government will provide a seasonal expenditure pattern which will work positively to reduce unemployment this winter. At the same time, the temporary nature of these expenditures means that there will be little or no permanent addition to public sector expenditures. The outline of our programs was announced by the Prime Minister on October 8, and subsequently other Ministers have announced details of particular programs. I am now in a position to give the Members a full description of our policies.

Municipal Employment Incentive Program

The amount allocated to the Municipal Employment Incentive Program has been increased from \$7.5 million in 1970-71 to \$35 million, of which \$25 million is included in the 1971-72 supplementary estimates. (The remaining \$10 million will be spent in 1972-73.) In addition, through consultation with the Provincial-Municipal Liaison Committee the administrative terms and conditions of the program have been made considerably more flexible and generous this year. Increased grants based on the relative burden of welfare caseloads are available to all municipalities and the length of the program has been extended to six months. These grants have been extended to cover materials, supervisory and other indirect labour costs up to 25 per cent of the direct labour costs. Any reasonable project geared to providing additional employment this winter will qualify, including projects involving clerical and technical people as well as manual labour. It is further proposed that municipalities be permitted to perform work on private property, with the agreement of the owners, in order to increase the number of qualifying projects.

The program will also be broadened this year to include school boards and other local boards and commissions. With the exception of school boards and conservation authorities, boards and commissions will make their applications through the municipal councils. Mr. Speaker, with the large expansion and increased flexibility of this program, we anticipate that as many as 30,000 temporary jobs will be created over the next six months.

Ontario Seasonal Employment Program

The Ontario Seasonal Employment Program has also been enlarged significantly. Last winter it involved four departments and expenditures of slightly over \$8 million. This winter nine departments will participate in administering 16 individual projects with total expenditures now estimated at over \$23 million. Projects will include:

- . improvement of parks, forestry and wildlife resources, and conservation authority lands;
- . removal of dead elm trees along highways;
- . accelerated maintenance projects undertaken by the Departments of Public Works and Correctional Services, and the Ontario Housing Corporation; and
- . special youth programs to be administered by the Departments of the Environment and Social and Family Services.

We estimate that the Ontario Seasonal Employment Program will provide over 10,000 temporary jobs. In addition, the Department of Labour will increase its subsidies for on-the-job training to produce an estimated 3,000 additional training places in industry.

Capital Works Acceleration

On October 8, the Government further enriched its program for capital works acceleration in order to concentrate construction activity in the coming winter period. In addition to the planned acceleration of projects by the Departments of Public Works and Transportation and Communications, a further number of capital works were approved for immediate action. These include projects by the Department of Public Works, a \$10 million program for the construction of day nurseries, and the utilization of accelerated CMHC funds by the Ontario Housing Corporation. I anticipate that the combined effect of these accelerated capital programs will result in an additional \$30 million being expended in the 1971-72 fiscal year, of which a substantial portion will be concentrated in the winter period.

This is an appropriate point, Mr. Speaker, to outline Ontario's participation in the Federal-Provincial Employment Loans Program which was announced by the federal government on October 14. Ontario has been allocated \$28 million for capital investment projects up to March 31, 1973. The funds may be applied to provincial or municipal projects accelerated within 1971-72, or to projects already included in the budget for the current fiscal year in return for a commitment to accelerate projects next year with a corresponding capital value. The loans will contain a forgiveness provision equal to 75 per cent of the on-site direct labour costs incurred during the period November 1, 1971, to May 31, 1972.

It is our intention to participate fully in this federal program. These funds have been offered first to Ontario municipalities and the Province will use any unallocated balance. We are now in the process of finalizing the agreement with Ottawa. By the end of January, I expect to announce the full details of Ontario's participation in this program.

Mr. Speaker, I have outlined the Ontario Government's program to increase employment in Ontario over the next five to six months. I would emphasize that the Government will be continually monitoring the progress of our policies as they affect the employment situation. We will maintain a flexible stance and adjustments will be made as they become necessary.

TAX ACTIONS

Mr. Speaker, let me proceed now to the tax actions the Ontario Government intends to legislate. We are introducing measures in four areas. First, we are implementing the personal income tax cuts already announced for the 1971 and 1972 taxation years. Second, we are presenting revised legislation to give effect to the health premium reductions announced in September. Third, we are amending our corporations tax to ensure that federal employment support grants will not be taxable by Ontario. And fourth, we are introducing major changes in our succession duties to go into effect on January 1, 1972 when the federal government vacates the field of death taxation.

Personal Income Tax Cuts

I would remind Members that, on October 8, the Prime Minister of Ontario called for federal income tax reductions to stimulate economic revival, and offered to join the federal government in implementing a complementary provincial cut in personal income taxation. Therefore, let me commend the federal government for moving to reduce personal and corporate income taxes in its October 14 budget. We have worked out with the federal government the mechanics of a parallel Ontario tax cut and are now in a position to put it into effect.

The Ontario personal income tax cut will take effect in two distinct stages. The first stage consists of a 3.6 per cent tax cut for the six-month period July 1, 1971, to December 31, 1971, at a

revenue cost of \$22 million. Because this retroactive tax cut could not be incorporated into the payroll deduction system and reflected immediately in take-home pay, it will take the form of a reduction from 28 points to 27.5 points in the Ontario rate of income tax for the full 1971 taxation year. This means that individual taxpayers will receive the benefits of this first-stage tax cut by Ontario when they file their 1971 income tax return in early 1972. The 3 per cent federal tax cut for the period July 1, 1971, to December 31, 1971, will take effect in the same way, so that the combined reduction will generate income tax refunds for most taxpayers in early 1972.

The second stage in the Ontario reduction consists of a 3 per cent tax cut for the 12-month period January 1, 1972, to December 31, 1972, at a revenue cost of \$36 million. This 1972 income tax cut has been designed to parallel exactly the corresponding federal income tax cut for the same period, and will show up in take-home pay almost immediately. I am pleased that the new federal-provincial tax collection agreement possesses the additional flexibility necessary to permit this positive and speedy impact.

I am confident that these Ontario personal income tax cuts, along with the corresponding federal reductions, will provide a strong stimulus to the economic recovery now under way. They will not only augment consumer purchasing power but also provide renewed optimism to our people.

Health Premium Reductions

On September 13, the Prime Minister of Ontario announced comprehensive reforms in our health insurance premium system to improve its fairness and efficiency. Our new policy consists of four important changes:

- . abolition of premiums for people aged 65 and over, and for their eligible dependants, effective January 1, 1972;
- . introduction of a combined health insurance premium in place of separate OHSIP and OHSC premiums, effective April 1, 1972;
- . reduction in the total premium levels to \$11 per month for single persons and \$22 per month for couples and families, effective April 1, 1972; and
- . broadening of premium assistance provisions for low-income families and individuals, effective April 1, 1972.

These important reforms will generate benefits for all taxpayers, particularly pensioners and low-income families, and will treat all subscribers uniformly both for hospital and medical coverage. I estimate that these changes will reduce our total premium collections by \$127 million annually.

My colleague, the Minister of Health, will bring forward legislation to implement these changes in our health insurance premium system. The new legislation will also include provisions to ensure that employers pass on to employees and retired employees any savings resulting from the reductions in premium levels. Our policy has been designed to provide benefits to individuals and families, not to generate cost savings to employers. Let me reassert, therefore, that under the new system all employers will be

required to maintain at least the same dollar level of premium contributions on behalf of each employee and pensioner as they are required to pay by any agreement under the existing system. This will mean that out of total premium collections of about \$500 million in 1972-73, employer contributions will account for more than \$300 million or over 60 per cent, and that less than 40 per cent of our total premium burden will fall directly on individuals and families.

No Ontario Tax on Employment Support Grants

The federal government has implemented a program of employment support grants to mitigate the negative effects on Canadian industries of the recent United States import surtax and other measures. The federal Employment Support Act provides that any employment support grant paid to a manufacturer will be included as income for the purposes of the federal Income Tax Act. This means, in effect, that part of the assistance provided by this temporary program will be recouped in the form of corporate income taxes. Because of the close parallel between our corporations tax and the federal tax, this offsetting impact would ordinarily also apply in respect of our corporation income tax. I do not believe that this is a desirable policy, particularly since the federal grant program has been established as a short-run response to an emergency situation. Accordingly, we intend to amend our Ontario Corporations Tax Act to exclude federal employment support grants from our income

tax base. In this way, the Province will reinforce, at least in a modest way, the positive assistance provided to Ontario manufacturers under the federal program.

I would point out to Members that this short amendment is the only change in our Corporations Tax Act that the Government is advancing at this time. We do not intend to incorporate in our legislation the substantial changes in corporate taxation set out in Bill C-259 until we are fully confident of their workability, impact and adequacy for Ontario. Let me reiterate that, in my view, it would be irresponsible to submit to this Legislature major changes in tax law that the Government itself has not fully evaluated, understood and approved. Our approach, therefore, will be to continue our thorough analysis and intensive review of the federal reform legislation so that we can determine our future tax policy on a deliberate and sound basis.

Changes in Succession Duties

I would like to take this opportunity to review for Members the Ontario Government's position on the taxation of wealth. As you will recall, the Ontario Government, in its 1969 White Paper on provincial-municipal tax reform, proposed the introduction of a capital gains tax and the gradual elimination of taxes upon death. As an interim measure, we also proposed to relinquish our succession duties in exchange for 75 per cent of the revenue that would accrue in Ontario from full application of the 1968 federal Estate Tax Act.

In our 1970 and 1971 budgets we advanced the gradual reduction of succession duties, even before the introduction of a capital gains tax. We followed this course because we felt that the new federal legislation had made death taxes too severe and would have an adverse impact on small businesses, family farms and Canadian ownership. Since my 1971 budget, the federal government has disclosed the details of the taxation of capital gains as well as its determination to vacate the estate and gift tax fields at the end of 1971. The immediate elimination of the estate tax was an incredible about-face. It put the onus on the provinces to prevent the obvious inequities inherent in a tax system which eliminates death and gift taxes when the tax on capital gains has barely started.

It takes a period of time before a capital gains tax becomes effective in moderating undue accumulations of wealth and generates revenues comparable to present death tax yields. To illustrate, the new capital gains tax will generate no more than \$10 million to the Ontario Government in 1972. However, this modest increase will only just compensate the Province for revenue losses attributable to the other personal income tax changes in the federal Bill C-259. It is essential for revenue reasons alone, therefore, to maintain some form of taxation of wealth upon death, be it at a gradually diminishing level. It is also essential for equity reasons, because in the absence of such death taxation, all wealth could be passed between generations without any meaningful tax consequences.

Now that the federal government has abandoned the death tax field completely, the Ontario Government accepts full responsibility for an appropriate level of taxation in this field. Our tax effort in this area will be judged in future years against the effectiveness of the taxation of capital gains. In other words, as the tax on capital gains gradually matures, our succession duties can be phased down. In the end, there may no longer be any need to levy succession duties upon death. At such time, wealth accumulations will have been subject to income and capital gains taxation and therefore will have paid their fair share on a current basis.

Under the present system, Ontario succession duties generate revenues of about \$70 million and the federal estate tax collects \$56 million in Ontario for a total of some \$126 million annually in wealth taxation. Half of the estate tax revenues are turned over to the Province so that Ontario retains \$98 million and the federal government \$28 million of the total wealth tax yield. In the absence of any policy change by Ontario, the elimination of federal estate tax on January 1 would mean an abrupt reduction of \$56 million in wealth taxation and a revenue loss to the Province of some \$28 million annually. The Province cannot afford such a precipitous revenue loss nor does it agree that such a large one-step reduction in wealth taxation is equitable. Accordingly, we are advancing changes in our succession duties legislation aimed at producing a total revenue yield of \$96 million and maintaining an equitable pattern of wealth tax incidence.

Our initial policies for the succession duties field consist of changes which will give us the full scope of the death tax field and will enable us to direct relief from current death taxes where we feel it is most needed. I am recommending the following specific changes in our legislation in respect of deaths occurring after midnight of December 31, 1971:

- . all rate schedules will be doubled; but,
- . all surtaxes will be eliminated;
- . the exemption for widows and widowers will be increased from \$250,000 to \$500,000;
- . all estates valued up to \$100,000 will not be subject to duty, regardless of their distribution; and
- . all gifts made within fifteen years prior to the death of the deceased will be included as property of the deceased passing on his death, if made on or after January 1, 1972.

The changes introduced in my 1971 budget already eliminated succession duties on all but 5,000 out of 45,000 estates annually. I estimate that the above changes will further reduce the number of dutiable estates to about only 2,000 per year. Furthermore, we estimate that the total yield from our revised succession duties will be about \$96 million, allowing for about \$30 million in relief from the current estate tax plus succession duty levies.

Ontario is currently negotiating with the federal government and most provincial governments in order to formulate an appropriate provincial gift tax to be administered by the federal government. Such a gift tax is an essential complement to our succession duties,

and will be effective on January 1, 1972. Between the gift provisions in our succession duties and a federally administered provincial gift tax we fully protect the base of our wealth taxation. Let me assure Members that this will not involve double taxation on gifts, because we will provide offsetting credits for gift taxes previously paid.

The changes I have just outlined will provide substantial relief to all categories of beneficiaries. These changes will eliminate the tax burden on all estates under \$100,000, improve the incidence of this tax, and will greatly reduce tax pressures to sell Canadian family businesses and family farms.

SUMMARY

Mr. Speaker, given the new taxation and spending policies I have just outlined, let me summarize the Province's revised financial position for 1971-72. I now anticipate that net general revenues will reach \$3,883 million as against estimated net general expenditures of \$4,436 million. Our budgetary deficit for the current year, therefore, will increase to \$553 million, up some \$138 million from my original budget plan. Our position on non-budgetary account has improved considerably with \$36 million in additional receipts and an \$87 million reduction in disbursements. These changes have increased our estimated non-budgetary surplus to \$193 million for 1971-72.

I believe that the increased budgetary deficit represents an appropriate fiscal response by Ontario to the problem of high unemployment and the need to reinforce economic expansion. Our balanced program of income tax cuts and employment-generating expenditure increases commits the maximum resources at our disposal to the goal of restoring full employment in Ontario. I am confident that our positive actions along with renewed vigour in private sector activity will move this province towards greater prosperity in the year ahead.

Mr. Speaker, I should like to make some concluding remarks on the work of the Committee on Government Productivity. The Government's ability to respond to economic and social needs is not only a function of its ability to develop appropriate economic and social policies, but also is critically dependent on the viability of its basic organizational structure.

In my capacity as Chairman of the Treasury Board, I have had the opportunity to closely follow the progress of the work of this group of executives from both business and government. They have all been diligent and dedicated in performing their challenging task. In particular, I would like to pay a most sincere tribute to Mr. John Cronyn, the Chairman, who is prudently and effectively guiding and fostering the development of the Committee's reports and recommendations. The other Committee members who have all contributed generously to this effort are first, from the deputy minister ranks of the Government of Ontario: Mr. G. H. U. Bayly, Mr. C. E. Brannan, Mr. A. R. Dick, Mr. H. I. Macdonald and Dr. J. K. Reynolds; and, second, from the Ontario business community: Mr. C. C. Hay, Mr. G. R. Heffernan, Mr. A. Powis and Mr. R. D. Wolfe, and the executive director, Dr. J. D. Fleck.

The Cronyn Committee has undertaken the most extensive analysis ever produced of the structure and operations of the Ontario Government and has developed substantive recommendations to make our organization equal to the challenge of the future.

In conclusion, Mr. Speaker, let me sum up my statement today. The Government of Ontario has moved positively to strengthen economic performance and job creation in Ontario. The additional expansionary tax and expenditure measures we have introduced represent the determined efforts of a responsible government to do all in its capacity to improve economic performance and the well-being of our citizens.

APPENDIX A

DETAILS OF TAX AND PREMIUM CHANGES

DETAILS OF TAX AND PREMIUM CHANGES

INCOME TAX

Reduction of 1971 Ontario Personal Income Tax

- . Ontario income tax payable by individuals for the 1971 taxation year will be 27.5 per cent of the basic federal tax.
- . The federal abatement for Ontario income tax will remain at 28 per cent for the 1971 taxation year.
- . This reduction of one-half percentage point represents a 3.6 per cent reduction in provincial income tax payable by individuals for the six-month period July 1, 1971 to December 31, 1971.
- . The reduction in tax payable will be realized upon filing the 1971 individual income tax return.

Reduction of 1972 Ontario Personal Income Tax

- . Ontario income tax payable by individuals for the 1972 taxation year will be 30.5 per cent of the tax payable under the federal Act for that taxation year.
- . Individuals resident in Ontario on December 31, 1972, may deduct from their income tax otherwise payable to Ontario an amount equal to 3 per cent of the income tax otherwise payable to Ontario.
- . The income tax reduction of 3 per cent from Ontario income tax otherwise payable will be reflected in payroll deductions at source for the 1972 taxation year.

CORPORATIONS TAX

Exemption of Federal Employment Support Grants

- . An amount paid to a corporation on account of an employment support grant under the Employment Support Act (Canada) will not be included in computing the income of a corporation for purposes of computing taxable income under The Corporations Tax Act of Ontario.
- . The exemption will apply to all employment support grants paid in 1971 and subsequent fiscal years.

SUCCESSION DUTY

Changes effective in respect of deaths occurring after midnight, December 31, 1971:

1. Rates of Duty

The rates of duty applicable to all classes of beneficiaries i.e. preferred, collaterals and strangers will be doubled.

2. Surtaxes

The existing surtax of 20 per cent for collateral beneficiaries and 25 per cent for strangers will be eliminated.

3. Estates valued up to \$100,000 will not be subject to Duty

No duty will be payable on an estate valued up to \$100,000, regardless of the distribution, instead of the present \$20,000 where such property passes to collateral beneficiaries and the present \$10,000 where property passes to stranger beneficiaries.

4. Increase in Widows' and Widowers' Exemption

The exemption for widows and widowers will be increased from \$250,000 to \$500,000. The corresponding credit, when duty is payable, will be increased from \$23,950 to \$125,000.

5. Dispositions made after December 31, 1971

Dispositions (gifts) made within fifteen years prior to the death of the deceased will be included as property of the deceased passing on his death if made on or after January 1, 1972. The present five-year period will continue to apply where dispositions are made prior to January 1, 1972.

HEALTH INSURANCE PREMIUMS

1. Premium Reductions

- . Health insurance premiums will be abolished for pensioners aged 65 and over, and for their eligible dependants, effective January 1, 1972.
- . A reduced combined health insurance premium of \$11 per month for single persons and \$22 per month for couples and families will replace the present separate OHSIP and OHSC premiums, effective April 1, 1972.

2. Broadened Premium Assistance

- . All single persons and families having no taxable income will be eligible for full assistance on the new combined health premium, effective April 1, 1972.
- . All single persons with taxable income under \$1,000 and all couples and families with taxable income under \$2,000 will be eligible for half assistance on the new combined health premium, effective April 1, 1972.

3. Premium Contributions by Employers

- . Employers will be required to maintain at least the same dollar amount of premium contributions for each employee and pensioner as they are required to pay under any agreement for contributions payable under the existing system.
- . Any dollar savings to employers are to be passed on to the benefit of the employee or pensioner concerned in the form of a higher employer share of the new health premium (which shall have priority until it reaches 100 per cent), in the form of equivalent fringe benefits, or in the form of higher wages.

APPENDIX B

FINANCIAL STATEMENTS

SUMMARY FINANCIAL TABLE ON 1970 and 1971 BUDGETS
(Millions of Dollars)

TABLE C1

	<u>1970-71 Actual</u>	<u>Original 1971-72 Budget</u>	<u>Revised 1971-72 Budget</u>
BUDGETARY TRANSACTIONS			
Tax Revenue	2,753.8	2,774.6	2,819.6
Non-Tax Revenue	997.8	1,072.4	1,063.8
	<hr/>	<hr/>	<hr/>
Total Net General Revenue	3,751.6	3,847.0	3,883.4
Total Net General Expenditure	3,846.0	4,262.5	4,435.9
	<hr/>	<hr/>	<hr/>
Budgetary Deficit	(94.4)	(415.5)	(552.5)
	<hr/>	<hr/>	<hr/>
NON-BUDGETARY TRANSACTIONS			
Total Receipts	864.4	942.6	978.4
Total Disbursements	712.5	871.9	784.8
	<hr/>	<hr/>	<hr/>
Non-Budgetary Surplus	151.9	70.7	193.6
	<hr/>	<hr/>	<hr/>
DEBT TRANSACTIONS			
Public Debentures Issued	-	-	100.0
Treasury Bills Issued (Net)	-	-	150.0
Debt Retirements (Net)	(64.9)	(49.0)	(48.7)
	<hr/>	<hr/>	<hr/>
Net Debt Transactions	(64.9)	(49.0)	201.3
	<hr/>	<hr/>	<hr/>
OVERALL EFFECT ON LIQUID RESERVES	(7.4)	(393.8)	(157.6)

EXPENDITURE RECONCILIATION TABLE, 1971-72
(Millions of Dollars)

	<u>Gross</u>	<u>Net</u>
Original Estimates	5,001.8	4,262.5
Supplementary Estimates	173.0	154.5
Treasury Board Orders	10.3	10.2
Salary Revisions Approved in Principle	18.0	18.0
Statutory Expenditure Increases	17.4	12.1
Estimated Departmental Underspending	(21.4)	(21.4)
	<hr/>	<hr/>
Revised Estimates	5,199.1	4,435.9
	<hr/>	<hr/>

NET GENERAL REVENUE
(Millions of Dollars)

TABLE C2

	1970-71 <u>Actual</u>	Original 1971-72 <u>Budget</u>	Revised 1971-72 <u>Budget</u>
<u>TAXATION</u>			
Income Tax Collection Agreement	991.8	1,050.0	1,020.8
Retail Sales Tax	674.2	745.0	750.0
Gasoline Tax	375.8	395.0	392.0
Corporation Taxes	414.1	290.0	365.0
Tobacco Tax	75.3	78.5	80.0
Succession Duty	81.3	70.0	71.0
Motor Vehicle Fuel Tax	33.3	36.5	39.5
Share of Federal Estate Tax	28.4	28.0	26.3
Mines Profits, Acreage, Gas	25.4	24.5	17.6
Race Tracks Tax	20.3	22.0	20.0
Land Transfer Tax	11.3	13.0	15.0
Income Tax - Public Utilities	10.6	9.5	9.5
Security Transfer Tax	5.3	6.0	6.5
Logging Tax	1.7	1.8	1.5
Other Taxation	5.0	4.8	4.9
 TOTAL TAX REVENUE	 <u>2,753.8</u>	 <u>2,774.6</u>	 <u>2,819.6</u>
 <u>OTHER REVENUE</u> ¹			
Government of Canada	191.3	244.1	238.2
Premiums - OHSIP	320.3	317.3	313.0
Profits from Trading			
Operations - LCBO	193.2	201.5	210.0
Fees, Licences and Permits	198.9	214.2	210.8
Royalties	30.1	26.7	24.7
Fines and Penalties	29.7	33.8	31.1
Sales and Rentals	24.5	26.0	25.6
Miscellaneous	9.8	8.8	10.4
 TOTAL OTHER REVENUE	 <u>997.8</u>	 <u>1,072.4</u>	 <u>1,063.8</u>
 TOTAL NET GENERAL REVENUE	 <u>3,751.6</u>	 <u>3,847.0</u>	 <u>3,883.4</u>

¹For further details see Table C2 (a).

DETAILS OF OTHER REVENUE
(Millions of Dollars)

TABLE C2(a)

	1970-71 <u>Actual</u>	Original 1971-72 <u>Budget</u>	Revised 1971-72 <u>Budget</u>
Government of Canada			
Recovery of Prior Years' Expenditure	32.0	46.5	42.4
Post-Secondary Education Adjustment Payments	143.4	176.7	174.8
Second Language Program	11.2	15.0	15.0
Annual Subsidies, etc.	4.7	5.9	6.0
	<u>191.3</u>	<u>244.1</u>	<u>238.2</u>
Premiums - Ontario Health Services Insurance Plan	<u>320.3</u>	<u>317.3</u>	<u>313.0</u>
Profits from Trading Operations - LCBO	<u>193.2</u>	<u>201.5</u>	<u>210.0</u>
Fees, Licences and Permits			
Vehicle Registrations	134.0	145.0	141.5
Transport (Other)	17.3	16.5	16.5
Lands and Forests	13.3	12.3	12.3
Justice	17.9	19.8	20.5
Other	16.4	20.6	20.0
	<u>198.9</u>	<u>214.2</u>	<u>210.8</u>
Royalties			
Timber Charges	21.1	15.0	14.5
Water Power	8.2	11.0	9.5
Other	.8	.7	.7
	<u>30.1</u>	<u>26.7</u>	<u>24.7</u>
Fines and Penalties	<u>29.7</u>	<u>33.8</u>	<u>31.1</u>
Sales and Rentals			
Goods, Services and Rentals	21.3	22.0	22.1
Sale of Fixed Assets	3.2	4.0	3.5
	<u>24.5</u>	<u>26.0</u>	<u>25.6</u>
Miscellaneous	<u>9.8</u>	<u>8.8</u>	<u>10.4</u>
TOTAL OTHER REVENUE	<u>997.8</u>	<u>1,072.4</u>	<u>1,063.8</u>

NET GENERAL EXPENDITURE
(Millions of Dollars)

TABLE C3

DEPARTMENT	1970-71 <u>Actual</u>	Original 1971-72 <u>Budget</u>	Revised 1971-72 <u>Budget</u>
Education	1,021.3	1,212.7	1,213.9
Health	702.9	735.9	764.3
Transportation and Communications	519.6	553.3	586.4
Colleges and Universities	535.1	574.4	567.8
Municipal Affairs	263.8	296.6	324.9
Social and Family Services	144.8	167.2	187.3
Justice	122.0	128.3	130.6
Public Works	105.3	115.4	129.5
Public Debt - Interest	61.2	81.6	87.7
Lands and Forests	73.4	77.4	93.1
Agriculture and Food	65.4	69.9	76.9
Correctional Services	52.0	57.8	64.2
Trade and Development	42.3	36.9	44.0
The Environment	32.9	38.3	39.6
Treasury and Economics	26.5	28.3	28.3
Labour	17.5	19.0	20.4
Tourism and Information	13.9	15.3	15.3
Revenue	12.4	13.9	14.1
Mines and Northern Affairs	10.3	12.5	13.5
Provincial Secretary & Citizenship	9.1	10.7	16.7
Financial and Commercial Affairs	7.7	8.3	8.6
Treasury Board	2.0	3.6	3.6
Civil Service	3.0	3.3	3.3
Provincial Auditor	1.1	1.2	1.2
Prime Minister	.5	.7	.7
Lieutenant Governor*	-	-	-
TOTAL NET GENERAL EXPENDITURE	<u>3,846.0</u>	<u>4,262.5</u>	<u>4,435.9</u>

* Amounts under \$50,000.

NON-BUDGETARY RECEIPTS
(Millions of Dollars)

TABLE C5

	<u>1970-71 Actual</u>	<u>Original 1971-72 Budget</u>	<u>Revised 1971-72 Budget</u>
RECEIPTS AND CREDITS			
PROCEEDS OF NON-PUBLIC DEBENTURE ISSUES:			
Canada Pension Plan	476.0	500.0	525.0
Teachers' Superannuation Fund	80.0	90.0	105.5
Municipal Employees' Retirement Fund	57.6	77.4	74.4
Federal-Provincial Special Development Loans	-	17.0	12.0
	<u>613.6</u>	<u>684.4</u>	<u>716.9</u>
REPAYMENT OF LOANS AND ADVANCES:			
Hydro-Electric Power Commission	11.1	41.6	40.9
Education Capital Aid Corporation	28.7	35.0	33.6
Universities Capital Aid Corporation	10.1	12.2	13.0
Hospital Construction Loans	4.4	7.4	7.4
Junior Farmer Establishment Loan Corporation	13.2	5.0	5.0
Municipal Works Assistance	4.0	4.0	4.0
Municipal Improvement Corporation	4.6	3.6	3.6
Ontario Development Corporation	1.3	3.0	5.6
Title Drainage Debentures	2.3	2.8	2.8
Housing Corporations	4.0	5.0	5.0
Other	19.6	3.3	4.3
	<u>103.3</u>	<u>122.9</u>	<u>125.2</u>
PENSION FUNDS, DEPOSIT, TRUST AND RESERVE ACCOUNTS:			
Public Service Superannuation Fund	86.4	99.0	99.0
Municipal Employees' Retirement Fund	13.6	16.5	16.5
Motor Vehicle Accident Claims Fund	8.0	8.7	9.1
OHSC - Premium Stabilization Account	25.4	-	-
Other	1.6	.5	1.1
	<u>135.0</u>	<u>124.7</u>	<u>125.7</u>
PROVINCE OF ONTARIO SAVINGS DEPOSITS (NET)			
	<u>12.5</u>	<u>10.6</u>	<u>10.6</u>
TOTAL RECEIPTS AND CREDITS	<u>864.4</u>	<u>942.6</u>	<u>978.4</u>

Note: Totals exclude the following debentures issued on behalf of Ontario Hydro:
\$ 84.1 million during 1970-71 and
\$100.0 million during 1971-72.

NON-BUDGETARY DISBURSEMENTS
(Millions of Dollars)

TABLE C5 (Continued)

	1970-71 <u>Actual</u>	Original 1971-72 <u>Budget</u>	Revised 1971-72 <u>Budget</u>
DISBURSEMENTS AND CHARGES			
LOANS AND ADVANCES:			
Education Capital Aid Corporation	201.5	200.0	200.0
Universities Capital Aid Corporation	174.8	179.5	179.5
Housing Corporation Limited	49.5	93.1	73.0
Ontario Water Resources Commission	38.0	50.0	40.0
Ontario (& Student) Housing Corporation	44.8	49.1	49.1
Hospital Construction Loans and Assistance	29.6	41.5	41.5
(Northern) and Ontario Development Corporation	14.4	36.2	16.8
Ontario Land Acquisition Corporation	-	20.0	-
Federal-Provincial Special Development Loans	-	17.0	1.1
Hydro Nuclear-Power Generating Station	23.9	12.0	11.1
Municipal Improvement Corporation	6.3	10.0	10.0
Tile Drainage Debentures	5.8	7.4	7.4
Junior Farmer Establishment Loan Corporation	11.5	-	-
Other	1.5	1.4	1.5
	<u>601.6</u>	<u>717.2</u>	<u>631.0</u>
PENSION FUNDS, DEPOSIT, TRUST AND RESERVE ACCOUNTS:			
OHSC - Premium Stabilization Account	67.0	105.4	105.4
Public Service Superannuation Fund	23.5	26.6	26.6
Municipal Employees' Retirement Fund	10.1	13.6	13.6
Motor Vehicle Accident Claims Fund	7.5	8.8	8.0
Other	2.8	.3	.2
	<u>110.9</u>	<u>154.7</u>	<u>153.8</u>
TOTAL DISBURSEMENTS AND CHARGES	<u>712.5</u>	<u>871.9</u>	<u>784.8</u>
SURPLUS ON NON-BUDGETARY TRANSACTIONS	151.9	70.7	193.6

Note: Totals exclude the following transfers of borrowed funds to Ontario Hydro:
\$ 84.1 million during 1970-71 and
\$100.0 million during 1971-72.

COMPLEMENT 1971-72

<u>Department or Agency</u>	<u>As at April 1/71</u>	<u>As at Dec. 9/71</u>	<u>Increase (Decrease)</u>
Agriculture & Food	1,734	1,720	(14)
Civil Service	197	203	6
Colleges and Universities	123	208	85
Correctional Services	4,213	4,294	81 ¹
Education	2,965	2,881	(84)
The Environment	399	485	86
Ontario Water Resources Commission	834	834	-
Financial and Commercial Affairs	484	489	5
Health	21,023	21,232	209 ²
Ontario Hospital Services Commission	443	443	-
Justice	4,157	4,157	-
Ontario Provincial Police	4,877	4,877	-
Labour	1,266	1,266	-
Lands and Forests	3,441	3,441	-
Mines and Northern Affairs	465	465	-
Municipal Affairs	3,511	3,511	-
Prime Minister	44	54	10
Provincial Secretary and Citizenship	438	438	-
Public Works	2,165	2,311	146 ³
Revenue	1,445	1,446	1
Social and Family Services	1,432	1,432	-
Tourism and Information	425	415	(10)
Centennial Centre	201	201	-
Trade and Development	275	277	2
Ontario Development Corporation	132	142	10
Ontario Housing Corporation	613	613	-
Transportation and Communications	12,266	12,272	6
Treasury and Economics	573	566	(7)
Treasury Board	106	100	(6)
	<u>70,247</u>	<u>70,773</u>	<u>526</u>

1. Appointment of the employees of St. Euphrasia's Private Training School to the public service -- 80.
2. Temporary increase to staff regional offices of the proposed O.H.I.C. -- 327.
3. Appointment of casual staff (tradesmen) to complement -- 114.

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